



Program Bulletin

August 17, 2002

CaHLIF Bulletin 02-2002

To: CaHLIF Approved Lenders

CaHLIF SILENT SECOND LOAN PROGRAM (CaHLIF SSLP)

The purpose of this Bulletin is to advise lenders that have been approved by program administrators, master servicers, and the California Housing Loan Insurance Fund (CaHLIF) to participate in specific special loan programs of changes to the procedures and documentation for the CaHLIF Silent Second Loan Program (CaHLIF SSLP). The Bulletin details the participating programs, the process for submitting loans for approval, and the delivery of loans that will now be purchased and serviced by the California Housing Finance Agency (CHFA). This bulletin replaces previous publications, memoranda, and letters issued detailing the procedures for originating and delivering loans. While these procedures and the related documents may be used immediately, all loans delivered for purchase on and after September 15, 2002 must comply with this bulletin.

CHFA provides funding and servicing for second loans originated under a number of loans programs insured by CaHLIF. The CaHLIF SSLP is used with a number of community based affordable housing programs throughout California. Currently, the CaHLIF SSLP is used in conjunction with the following approved affordable housing finance programs:

- Cal Rural Redevelopment Agency Superflex Program
- Local Government Housing Agency/Freddie Mac Lease Purchase
- CaHLIF 97/3 High Cost Area Pilot Program
- CalPers 97/3

ELIGIBLE USES OF CAHLIF SILENT SECOND LOAN PROCEEDS

The CaHLIF SSLP can only be used with approved special programs in conjunction with a purchase money 97% CaHLIF-insured loan. Lenders should review the approved program descriptions issued by program administrators, master servicers, and local housing agencies to ascertain the use of loan proceeds.

MAXIMUM LOAN AMOUNT

The maximum CaHLIF SSLP loan amount may vary depending upon specific program parameters. Lenders should review the approved program descriptions issued by program administrators, master servicers, and local housing agencies to ascertain the use of loan proceeds.

RATE AND TERM

The rates on the CaHLIF SSLP are currently 5% simple interest, and 3% simple interest for some of the Lease Purchase Program, and are subject to change. Rate changes are notified by separate CaHLIF Bulletins. The loan repayment is deferred for a maximum of 30 years or as specified below. CaHLIF SSLP loans must be in second position. Payment principal and interest on the CaHLIF silent second loan will be deferred until:

- the first Note and Deed of Trust become due and payable;
- the first Note and Deed of Trust loan is paid in full;
- the first Note and Deed of Trust is refinanced;
- the first Note and Deed of Trust is assumed (see terms of the Note)
- the property is no longer owner occupied
- the property is sold or until, and in the event of, the formal filing and recording of a Notice of Default, unless rescinded.

Upon the occurrence of any one of the above, the entire principal and interest on the loan is due and payable.

Prepayment of the CaHLIF second loan is permissible. Prepayments will be applied first to interest owed then to principal. There is no prepayment penalty in the CaHLIF SSLP.

BORROWER AND PROPERTY ELIGIBILITY

Lenders should review the approved program descriptions issued by program administrators, master servicers, CaHLIF, and local housing agencies for borrower and property eligibility for each approved program.

APPROVAL PROCESS

Lenders send a copy of the loan underwriting file to the Risk Manager at CaHLIF for review. The Risk Manager's approval for commitment and certificate of insurance on the first loan will also be an approval for the CaHLIF SSLP provided the loan is submitted under an approved program that includes the CaHLIF SSLP. The program that includes the CaHLIF SSLP is noted on the Application for Mortgage Insurance available on the CHFA website www.chfa.ca.gov. The CaHLIF SSLP is only available for approved programs as noted previously.

Please send the underwriting package and Application for Mortgage Insurance to: California Housing Loan Insurance Fund 1121 L St., Ste 204, Sacramento, CA 95814.

DOCUMENTATION AND LOAN PURCHASE PROCEDURES

The CaHLIF Silent Second Note and Deed of Trust dated 05/02/02 and the CaHLIF Transmittal Worksheet have been designed for use in this program. Lease Purchase Programs must only use the CaHLIF SSLP Lease Purchase Note and Deed of Trust dated 05/23/02. Copies of these documents are available on the CHFA website www.chfa.ca.gov. Only closed loans utilizing the CaHLIF SSLP Promissory Note and Deed of Trust will be purchased. Lenders must advance funds to close the second loan in the lender's name, and then follow the procedure below in submitting the loans for purchase by CHFA.

CHFA will purchase CaHLIF Silent Second Loan Program loans upon delivery of the following documents:

- A completed CaHLIF SSLP Transmittal Worksheet
- The original plus one copy of the CaHLIF SSLP Promissory Note endorsed to "California Housing Finance Agency."
- A certified copy of the signed and notarized CaHLIF SSLP Deed of Trust
- A certified copy of the signed and notarized Assignment of the CaHLIF SSLP Deed of Trust to "California Housing Finance Agency."
- A certified copy of the HUD 1 Settlement Statement
- A certified copy of the Request for Notice of Default

CHFA will review the required loan documentation for programs supported by the CaHLIF Silent Second Loan Program. CHFA will purchase the second loan only after confirmation that the first loan has been purchased by the first loan investor designated by the approved program and the CaHLIF SSLP loan documents are correct and complete. CHFA will fund only the outstanding principal balance of the second

loan and not the accrued interest, since interest is deferred for the term of the mortgage. (See the paragraph titled "Compensation to Lenders" below).

When CHFA has received all documentation and all conditions have been met the loan will be purchased. Lenders will be notified in writing if a loan purchase is placed in suspension due to unacceptable documentation. Reformation Agreements are not acceptable on anything that constitutes a material change in the document (loan amount, interest rate, payment, etc.) that could affect the lien rights on any subordinate document. The lender must provide the required documents to clear the suspension within the timeframe specified on the suspension notice or all documents will be returned to the lender and will not be purchased by CHFA.

Within 120 days from the date of the closing of a loan that has been approved for purchase by CHFA, the lender must deliver the original documentation for the second which includes the following.

- The original recorded CaHLIF SSLP Deed of Trust
- The original recorded Assignment of the CaHLIF SSLP Deed of Trust
- The original recorded Request for Notice of Default

Please send all purchase documentation to: CHFA, Homeownership Programs, 1121 L Street, 7th Floor, Sacramento, CA 95814

COMPENSATION TO LENDERS

Lenders are permitted to charge the borrower or seller up to an additional \$250 to process the CaHLIF second loan. The processing fee for the CaHLIF second loan is to compensate Lenders for all accrued interest from the date of recordation to date of purchase by CHFA, plus cover the normal origination and processing costs.

SERVICING

CaHLIF silent second loans will be serviced directly by the California Housing Finance Agency (CHFA). There will be no service-release fee due to the nature of the deferred payment loan.

At the time of loan purchase, CHFA will notify the borrower of the CaHLIF second loan number and provide instructions to the borrowers regarding procedures for prepayments or loan payoffs to be made directly to CHFA.

Documents are available from CaHLIF and also available on the CHFA website www.chfa.ca.gov. Questions regarding this program may be directed to California Housing Loan Insurance Fund, 1121 L St., Ste 204, Sacramento, CA 95814 or call (916)322-8936. Any questions regarding purchase documentation may be directed to California Housing Finance Agency, Homeownership Programs, 1121 L Street, 7th Floor, Sacramento, CA 95814; or call (916) 324-7716

These documents are available on the CHFA website www.chfa.ca.gov:

- Application for Mortgage Insurance
- CaHLIF Silent Second Loan Program Transmittal Worksheet dated 07-12-02
- CaHLIF Silent Second Loan Program Note dated 05-02-02
- CaHLIF Silent Second Loan Program Deed of Trust dated 05-02-02
- CaHLIF SSLP Lease Purchase Note dated 05-23-02
- CaHLIF SSLP Lease Purchase Deed of Trust dated 05-23-02



Lenders are encouraged to use CHFA's FHA Energy Efficient Mortgage Program (EEM) to minimize energy usage and costs. Additional information regarding EEMs is available on CHFA's web page.